

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 PER-05 NSF-04 FS-01

DRC-01 /104 W

----- 122450

R 020100Z OCT 73

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 5980

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY LA PAZ

AMEMBASSY LIMA

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DEPT PASS: OPIC, EXIM, TREASURY & US TRAVEL SERVICE

EO 11652: N/A

TAGS: EFIN AFSP CI

SUBJ: DEVALUATION OF EXCHANGE RATES

REF: SANTIAGO 3957

1. EFFECTIVE OCTOBER 1, CENTRAL BANK DEVALUED AND
CONSOLIDATED OFFICIAL EXCHANGE RATES AS FOLLOWS (ALL ESCUDOS
EQUAL ONE DOLLAR):

E280 - BASIC BANKERS RATE FOR IMPORT AND EXPORT
TRANSACTIONS, INCLUDING TRADE INVISIBLES, WITH EXCEPTION
OF E110 FOR CENTRAL BANK PURCHASES OF FX FROM COPPER
EXPORTS; AND

E850 - BASIC BROKERS RATE: CENTRAL BANK PURCHASES OF FX
PRIMARILY FROM EMBASSIES AND INCOMING FOREIGN TOURISTS.
EXCEPTION IS E1302 - (BASIC RATE PLUS 53.15 PERCENT TAX): CENTRAL
BANK SAES OF FX PRIMARILY TO OUTGOING CHILEAN TOURISTS.

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TRANSLATION OF CENTRAL BANK CIRCULAR ON SUBJECT WILL BE

POUCHED TO WASHINGTON.

2. MINISTER OF FINANCE GOTUZZO REPORTEDLY SAID THAT PURPOSE OF THIS DEVALUATION WAS TO SIMPLIFY EXCHANGE RATE STRUCTURE AND MAKE IT BETTER REFLECT RELATION BETWEEN INTERNAL AND EXTERNAL PRICES. HE CLAIMED GOC WOULD ADOPT MEASURES TO PROTECT LOWER INCOME GROUPS FROM LOSS IN PURCHASING POWER CAUSED BY DEVALUATION.

3. COMMENT: NEW EXCHANGE RATES, LONG OVERDUE, ARE MORE REALISTIC REFLECTION OF PRESENT CHILEAN ECONOMIC SITUATION. EMBASSY SOURCES SAY GOC PLNS TO MAKE FURTHER DEVALUATIONS TO MATCH INFLATION RATE, AS OCCURRED DURING FREI ADMINISTRATION. EXPORTS, PARTICULARLY NON-COPPER PRODUCTS, SHOULD BE STIMULATED. WE UNDERSTAND THAT GOC CONSIDERS E110 BANKERS RATE SUFFICIENT TO COVER COSTS OF COPPER COMPANIES AND DOES NOT WISH THEM TO EARN LARGE PROFITS WHICH MAY BE POSSIBLY DIVERTED FOR WAGE INCREASES. APPARENTLY THERE IS SOME DEBATE ON WHETHER SMALL AND MEDIUM COPPER MINES WILL OBTAIN MORE FAVORABLE RATE. IMPORTS WILL BE DISCOURAGED. COST OF FOOD AND FUEL IMPORTS, WHICH ROSE OVER 1000 PERCENT, WILL MEAN VERY SUBSTANTIAL PRICE RISE IN SUCH ITEMS AS BREAD AND PETROLEUM. NEW BASIC BROKERS RATE (E850) SHOULD ENCOURAGE TOURISM HERE AND ALSO REDUCE LOCAL EXPENSES OF EMBASSIES AND INTERNATIONAL ORGANIZATIONS. EFFECTIVE RATE FOR CHILEAN TOURISTS REMAINS THE SAME, INDICATING GOC DESIRE TO TREAT AS LUXURY EXPENSE. WE ARE TOLD CENTRAL BANK WILL MAINTAIN ANNUAL RESTRICTIONS ON OUTGOING TOURIST EXPENDITURES.

4. FURTHER ANALYSIS WILL FOLLOW BY SEPTTEL.
DAVIS

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